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Southern African Development Partnership Platform (SAADPP)

Contracting arrangements and inclusive business models in Agriculture: A case of three Beira Corridor countries

Ward ANSEEUW
(CIRAD/University of Pretoria)

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Presentation Outline



1. Contract farming in the context of the Beira corridor development
2. Contract farming?
3. Investment models and trends
4. Contract farming a panacea?
5. Some recommendations



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Contract farming in the context of the Beira corridor development



The Beira Agricultural Growth Corridor seeks to:

- “stimulate a major increase in agricultural production*
- “...drawing smallholder farmers out of the cycle of subsistence farming ...”*
- “...cluster approach...” (Beira corridor, 2012;).*

Guiding questions: What has been implemented, have the local farmers been integrated/benefiting from these dynamics and what was the role of contract farming?



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Contract farming?

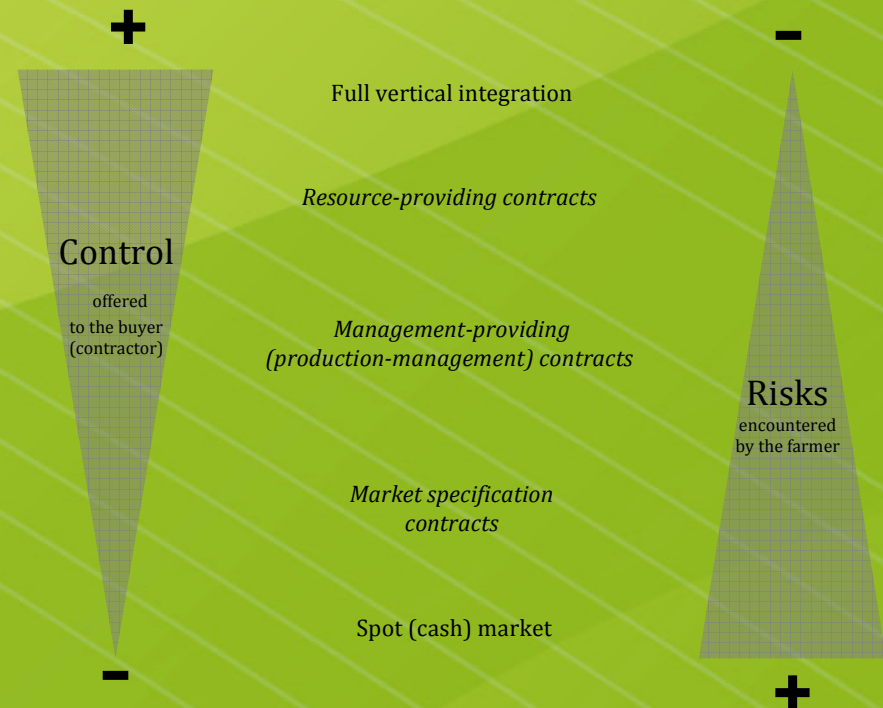


- Contractual agreement between farmer and off-taker
- Contract farming allows sharing of production and marketing risks between farmers and agribusinesses

Table 1: Type of arrangements according to production and market risks

		<i>Production risks</i>		
		<i>High</i>	<i>Medium</i>	<i>Low</i>
<i>Markets risks</i>	<i>High</i>	<i>Vertical integration</i>	<i>Vertical integration</i>	<i>Long-term contract</i>
	<i>Medium</i>	<i>Vertical integration</i>	<i>Long-term contract</i>	<i>Long-term contract/ spot market</i>
	<i>Low</i>	<i>Vertical integration</i>	<i>Long-term contract</i>	<i>Spot market</i>

Source: Van Lieshout et al., 1995





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Contract farming?



- Certain benefits and presently – restructured markets
- Seen as a tool for smallholder/family farming integration

	Advantages	Disadvantages
Farmers	<ul style="list-style-type: none">-Securing markets-Access to new markets-Access to inputs, credit and production services-Access to extension services and technical advice-Opportunities to learn new skills and technology-Reduction of price risk-Enhancing farm production and management skills-Increased and more stable income flows	<ul style="list-style-type: none">-Non-compliance by agri-businesses-Complexity of contracts, price setting mechanisms-Lack of exit options-Reduced flexibility-Increased requirements and standards-Increased asset compliance-Farm land degradation-Loss of farmer independence-Lack of public frameworks and effective contract enforcement- Increased social tensions
Agri-businesses	<ul style="list-style-type: none">-Transaction costs reduction-Quantity control and timely procurement-Quality control-Favourable prices-Access to primary resources-Access to financial instruments-Access to public support mechanisms-Agribusiness corporate image	<ul style="list-style-type: none">-Side-selling by farmers- Transaction/logistic costs increase through farmers isolation and non-compliance-Internalisation of farmer support costs-Diversion of supplied inputs-Flexibility constraints for agribusinesses



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Investment models and trends



Independent farmer model	Associative farmer model	Cooperative farmer model	Speculative 1000-day model	Asset management and Investment funds model	Nucleus estate model	Agribusiness Estate model
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High failures

Increased integration

- 1) Obstacles related to establishment in less developed agrarian economies
- 2) Increased commodity prices, reversal of the risk/profit relationship within production chain



Shift towards primary production and the – often necessary – vertical integration
Leave little space for inclusive business models and contract farming (small farmers).

Few inclusive models



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Investment models and trends



Independent farmer model	Associative farmer model	Cooperative farmer model	Speculative 1000-day model	Asset management and Investment funds model	Nucleus estate model	Agribusiness Estate model
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Association with local farmers, looking for CF opportunities



Based on bilateral agreements (more based on social inclusion)



1/3 of CF (tendency to full control) & Spot market



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Contract farming – A panacea?

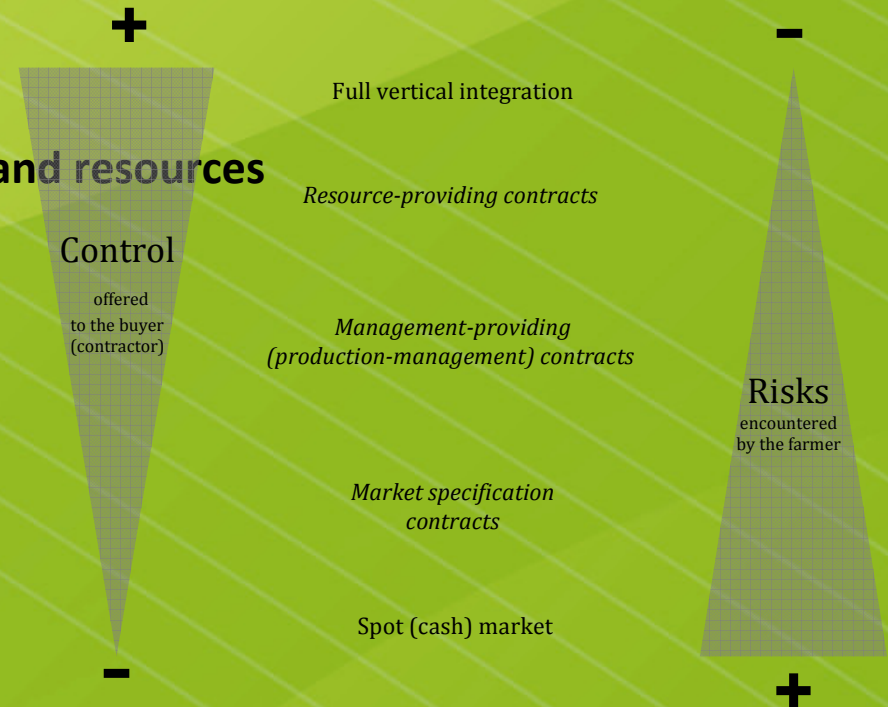


1) Concerning only a few, often already better established farmers

- Developed economies/agrarian societies
 - Up to 70-100% of produce of certain commodities
 - Only 2.6% of farmers population
- Less developed economies/agrarian societies
 - Very little

2) Transferring decision-rights over production and resources

- Loss of autonomy
- Loss of status of independent farmers
- In both developed or less-developed societies





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Some recommendations?



- **Realistically identify the constraints to be addressed by contracts**
- The need for mutual benefits and common purpose
- Establish mutual trust and respect
- Preferably contract in writing, readable and with disclosure
- Necessary precisions and legal elements and the existence of a legal framework
- Importance of contractual flexibility
- Avoid unfair and misleading practices
- **External intervention and the creation of a “virtuous circle” of private-public investments**
- **Multi-stakeholder initiatives and more inclusive models (equity shares, ...)**
- Establish dialogue
- Supporting genuine collective action dimension and social capital



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THANK YOU

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